

Finance facilities available to UK borrowers in response to the COVID-19 crisis

This document sets out the two main finance facilities available to UK corporate borrowers who are facing liquidity tightening as a result of the COVID-19 outbreak. A further scheme (the COVID Large Business Interruption Loan Scheme) will be launched later in April 2020 for businesses whose annual turnover is between £45 million and £500 million (we will provide further details in relation to this scheme once launched).

The finance facilities listed below are in addition to any other available relief under existing central bank regimes, for instance, the Bank of England's Asset Purchase Scheme under which it will increase its holdings of sterling non-financial investment-grade corporate bonds which it buys on the secondary market.

Additional forms of relief in response to the COVID-19 crisis have also been provided by the government, and further information can be found at: <https://www.gov.uk/government/publications/guidance-to-employers-and-businesses-about-covid-19/covid-19-support-for-businesses>.

This document does not consider government reliefs that indirectly impact on corporate borrowers, such as the Term Funding Scheme, which provides additional funding to lenders to increase their lending to small and medium enterprises (SMEs).

Scheme	UK government-backed COVID Business Interruption Loan Scheme (CBILS)	Bank of England (BoE) COVID Corporate Finance Facility (CCFF)	
Summary of measure	<p>This scheme encourages the provision of debt facilities by accredited lenders to eligible small and medium-sized enterprises. Such facilities may include term loans, overdrafts, invoice finance and asset finance up to the value of £5 million.</p> <p>Lenders are provided with a government-backed guarantee that, in the event the borrower fails to repay the debt facility, the government will instead pay the lender up to 80 percent of the outstanding balance.</p>	<p>This scheme intends to help support liquidity among larger businesses by helping them to bridge disruption to their cash flows caused by the COVID-19 outbreak.</p> <p>This will be achieved by the BoE purchasing short-term debt instruments in the form of eligible commercial papers issued by such businesses via their bank. Note the business is still eligible even if they have never issued commercial paper before.</p> <p>The BoE will be making such purchases between 10am and 11am daily. Any business which believes it is eligible will need to first make an application to the BoE (via their bank or a bank participating in the scheme).</p>	
How are the target firms, and what are the eligibility criteria?	<p>Debt facilities are only available to SMEs that:</p> <ul style="list-style-type: none"> • Are UK-based in their business activity 	<p>The issuer (i.e. the business issuing commercial paper via their bank) must:</p> <p>Be making a "material contribution to the UK economy"</p>	<p>Factors the BoE will take into account include whether the issuer :</p> <ul style="list-style-type: none"> • is a UK incorporated company (which includes UK companies with foreign-incorporated parents) with a genuine business in the UK

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	<ul style="list-style-type: none"> Have an annual turnover of up to £45 million (for firms that form part of a group,¹ this should be calculated on a group basis taking into account the position in the 12 months preceding the application. More than one entity in the group can 		<ul style="list-style-type: none"> is a significant employer in the UK is headquartered in the UK generates significant revenue in the UK serves a large number of customers in the UK has number of operation sites in the UK

¹ It is unclear what is meant by the term 'group'. The FAQs refer to a control relationship on a legal or de facto basis. Further guidance on what this actually means may be provided at a later date.

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	<p>apply under CBILS provided the consolidated group turnover does not exceed £45 million);</p> <ul style="list-style-type: none"> • Generate more than 50 per cent of their turnover from trading activity • Will use the facility to primarily support trading in the UK • Have a borrowing proposal which, were it not for the COVID-19 pandemic, would be considered viable by a lender • Must self-certify that they has been adversely impacted by COVID-19 <p>The persons that are able to benefit from the CBILS comprise the following, provided their business activity is operated through a business account:</p> <ul style="list-style-type: none"> • Sole traders • Freelancers • Body corporates • Limited partnerships • Limited liability partnerships • Any other legal entity carrying out business in the UK with an annual turnover up to £45 million <p>The following trades and organisations cannot apply:</p> <ul style="list-style-type: none"> • Banks • Insurers and reinsurers (but not insurance brokers) • Public-sector bodies • Further education establishments • Employer, professional, religious or political membership organisations • Trade unions 	<p>Be able to demonstrate that it was in “sound financial health” prior to the COVID-19 pandemic</p>	<p>This translates as an issuer who, as of 1 March 2020, had a short or long-term rating of <u>investment grade</u>. There are different ways issuers may be able to demonstrate they were ‘investment grade’:</p> <ol style="list-style-type: none"> 1. By having or acquiring a public investment grade rating from one of the major credit ratings agencies (S&P, Moody’s, Fitch or DBRS Morningstar). An investment grade rating means either: (i) a short-term credit rating of A3/P3/F3/R3 or above; or (ii) a long term credit rating of BBB-/Baa3/BBB-/BBB (low) or above. Note that if multiple ratings have been obtained; it is the lowest rating that will be considered and must also be equivalent to investment grade. 2. In the event an issuer does not have a public credit rating, by applying to the BoE for a credit rating (which will essentially be achieved by the BoE aggregating estimates from the largest UK banks). An issuer thinking of this route should first check with their main bank if their business was rated by the bank as investment grade internally. 3. In the event an issuer believes it is unlikely they were rated investment grade by multiple banks; by seeing an assessment from one of the major credit rating agencies mentioned above (with such assessment considering the position as of 1 March 2020) which can then be shared with the BoE and HM Treasury.

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	<p>Note that on 1 April 2020, the Finance and Leasing Association (FLA) published a statement clarifying that following discussions with the government (via the British Business Bank (BBB)), independent and non-bank lenders will be able to access funding as borrowers. Certain other financial services firms, such as FCA-regulated intermediaries and advisers, may be eligible to apply for funding if they satisfy the relevant criteria.</p>	<p>Not be an excluded entity</p>	<p>The following entities will not be eligible:</p> <ul style="list-style-type: none"> • financial sector entity (i.e. firms regulated by the Financial Conduct Authority/Prudential Regulation Authority) • leverage investment vehicle • companies within a group that is predominantly active in businesses subject to Financial Services regulation • public bodies or authorities <p>Notwithstanding the above, a business can be:</p> <ul style="list-style-type: none"> • a finance subsidiary (In these cases, the BoE will require an acceptable guarantee from the parent company. Where the parent company is not UK incorporated, the guarantor should provide a legal opinion on the guarantee. Pro forma documents are available).
<p>What are the eligibility criteria of financial instruments, or features</p>	<p>Finance terms</p> <p>There is no guarantee fee for SMEs to access the CBILS.</p> <p>The maximum value of a facility is £5 million, available on repayment terms of up to six years for term loans</p>	<p>The commercial paper must:</p>	
		<p>Use the pre-approved or at least, be based on standard commercial paper issued using ICMA standard documentation.</p>	<p>Note ICMA is making its documentation available for free to non-ICMA members.</p> <p>Commercial paper that includes non-standard features (e.g. extendibility or subordination) will not be approved.</p>

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of the debt facility?	and asset finance. For overdrafts and invoice finance facilities, terms will be up to three years.		The documentation should include key standard terms such as the documentation being governed by English law and being subject to the jurisdiction of the English courts.	
	The government will guarantee to the lender up to 80 per cent of net losses should a borrower default. The borrower remains 100 per cent liable for the debt.	Have a maturity of between one week and 12 months	Where longer-term debt is issued, this may be subject to other asset purchase frameworks.	
	For borrowers, the government will provide a 'Business Interruption Payment' equivalent to 12 months of interest and fees payable on the facility. Some lenders have confirmed they will not charge an arrangement fee or early repayment charge to SMEs taking advantage of the CBILS. Fishery, aquaculture and agriculture businesses may not be able to benefit from the full Business Interruption Payment.	Be issued directly into Euroclear and/or Clearstream	Euroclear and Clearstream usually take 10 business days to approve documentation.	
		Be issued in sterling		
	Security and guarantees	The minimum size of an individual security to be purchased from any individual issuer is £1 million, and offers must be rounded to the nearest £0.1 million.		
	For facilities under £250,000, no personal guarantees may be taken.	For primary market purchases, the BoE will impose individual issuer limits, the quantum of which depends on differing factors. An indicative guide to the maximums dependent on ratings is set out below:		
	For facilities above £250,000:	Rating/equivalent	Initial issuer limit	
	<ul style="list-style-type: none"> Personal guarantees may be required, at the lender's discretion. Principal Private Residence is not to be taken as security. Recoveries where personal guarantees are provided are capped at a maximum of 20 per cent of the outstanding balance of the CBILS facility after the proceeds of business assets have been realised. 	A1/P1/F1/R1	Up to £1 billion	
	Facilities under the CBILS can be provided on a secured or unsecured basis.	A2/P2/F2/R2	Up to £600 million	
	A3/P3/F3/R3	Up to £300 million		

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Procedural items and further information	<p>Procedural items</p> <p>Borrowers should approach their own bank, via its website in the first instance. Or, approach one of the 40+ accredited lenders.</p> <p>Rejection from one CBILS accredited lender does not mean an SME is unable to approach other accredited lenders.</p> <p>Further information</p> <p>From 25 March 2020, the BBB is accelerating accreditation for some existing lenders to be able to provide additional variants of CBILS, and accepting applications for new lenders to undergo accreditation.</p> <p>Lenders must pay a fee to access the scheme.</p>	<p>Procedural items</p> <p>Offers from issuers to sell commercial paper should be submitted by phone to the BoE's sterling dealing desk between 10am and 11am.</p> <p>The BoE requires issuers wishing to offer securities in the primary market to first contact the BoFE directly to discuss eligibility or submit their completed application to CCFF-applications@bankofengland.co.uk. The application forms are available online. (Note that a guarantee may be needed if the commercial paper is issued by an entity other than the primary entity in the group, and the issuer is not rated as investment grade by credit ratings agencies. Conditions apply to the content or form of that guarantee).</p> <p>Eligible counterparties that wish to offer commercial paper to the BoE in the secondary market must confirm the eligibility of specific securities with the BoFE prior to offering them for sale, using the template on the BoE's website, and should contact CCFF-applications@bankofengland.co.uk.</p> <p>The BoE aims to confirm the eligibility of commercial paper as soon as possible. Provided confirmation is received from the BoE before 4pm on a working day, the issuer will be able to sell commercial paper to the BoE the next working day via their bank.</p> <p>A confidentiality agreement with the BoE will need to be signed; names of issuers and securities will not be made public.</p> <p>Settlement will normally take place on a T+2 basis.</p> <p>The BoE is able to reject applications without explanation.</p> <p>Further information</p> <p>Where two or more issuers are part of the same group, an aggregate limit may be applied.</p> <p>The CCFF will purchase securities at a spread above a reference rate, based on the current sterling overnight index swap (OIS) curve, with spreads set such that pricing</p>

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Applicable dates	<p>Starts: 23 March 2020</p> <p>Although note that the ‘expanded scheme’ to enable the eligibility of borrowers who are able to provide security (i.e. who were previously ineligible because they could not provide security) opened on 3 April 2020 and became operational on 6 April 2020. Any loans made to such borrowers since 23 March 2020 can be brought within the CBILS retrospectively, provided that the borrower meets the CBILS eligibility criteria.</p> <p>Finishes: this scheme will initially run for six months (likely until 30 September 2020).</p>	<p>is close to the market spreads prevailing before COVID-19. Differing pricing provisions exist in relation to primary and secondary market purchases.</p> <p>Starts: 23 March 2020</p> <p>Offers from issuers to sell to the BoE must be received and accepted by 31 December 2020. Firms are encouraged to apply as early as cash flow pressures arise.</p> <p>Finishes: it is scheduled to last for at least 12 months, and will continue for as long as necessary to relieve cash flow pressures on eligible firms.</p> <p>The BoE will provide six months’ notice of withdrawal of the CCFF.</p>
Useful links	<ul style="list-style-type: none"> • This page provides a list of over 40 accredited lenders: https://www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-scheme-cbils-2/current-accredited-lenders-and-partners/. • British Business Bank FAQs: https://www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-scheme-cbils-2/cbils-faqs-for-smes/. 	<ul style="list-style-type: none"> • HMT/BoE press release of 17 March 2020: https://www.bankofengland.co.uk/news/2020/march/hmt-and-boe-launch-a-covid-corporate-financing-facility • BoE Market Notice of 18 March 2020: https://www.bankofengland.co.uk/markets/market-notices/2020/ccff-market-notice-march-2020 • BoE information for issuers of 20 March 2020: https://www.bankofengland.co.uk/news/2020/march/the-covid-corporate-financing-facility. • BoE further information for issuers: https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/information-for-participants • ICMA Euro commercial paper materials: https://www.icmagroup.org/News/news-in-brief/icma-euro-commercial-paper-ecp-materials-to-be-made-available-to-the-wider-market/ • Details of banks that can assist with commercial paper issuance are listed on UK Finance’s page: https://www.ukfinance.org.uk/covid-19-corporate-financing-facilities